

## Funding Student Opportunity Through Tennessee's Outcomes-Based Formula

Tennesseans believe education should prepare students for careers, but many are not confident the current education system will result in success in the job market.<sup>1</sup> Data show that postsecondary education does lead to improved earnings and employment on average, yet students experience varying returns on investment for the credentials and degrees they earn.<sup>2</sup> Not all opportunities yield meaningful economic returns. Further, there remains a persistent shortage of educated Tennesseans to meet workforce needs.<sup>3</sup> **It is time for Tennessee to comprehensively address the disconnect between education and work and ensure its credential and degree opportunities are preparing students for careers that enable economic independence.**

In a recent [report](#), SCORE highlighted that an essential step to solving this misalignment between education and careers is to establish a clear definition of what success looks like — one that helps the state understand how degrees and credentials impact workforce opportunity. That definition — or framework — can then be used to guide state policies, investments, and practices to increase student opportunity from education to career. That framework can also build on existing efforts to better connect education and work, such as new education-to-career data dashboards, streamlined program approval processes, and strategic plans that embed an intentional focus on career pathways and workforce development.<sup>4</sup>

An essential next step is identifying the applications of a framework for credential impact that will ensure the state's education systems drive students toward career success and ultimately steer Tennessee toward economic and workforce growth. No single policy, investment, or practice can realize this vision alone. There are obstacles for Tennesseans across K-12, postsecondary, and the workforce that need to be addressed. One of the significant postsecondary policy opportunities for ensuring state resources drive toward the outcomes in this framework is through Tennessee's postsecondary outcomes-based funding formula.

Tennessee is proudly the first state to fund colleges and universities based on student performance.<sup>5</sup> Research indicates the state's funding formula has driven some improvements in student outcomes, yet data continue to show that too few students are successfully completing credentials and degrees.<sup>6</sup> Underwhelming graduation rates alongside misalignment between education and careers suggest a clear opportunity for improving the formula to support an

expanded vision of lifelong success for every Tennessean.<sup>7</sup> As the original leader of outcomes-based funding, our state has the foundations in place to once again lead the way with an updated formula that more effectively and comprehensively drives improvement. **Tennessee should revise the outcomes-based funding formula to align with a framework that connects credential impact to workforce opportunity so that it drives preparation for career success beyond graduation.**

## Background: Outcomes-Based Funding

In 2010, Tennessee adopted a postsecondary outcomes-based funding formula through the Complete College Tennessee Act (CCTA), with the goal of funding public colleges and universities to support students to graduation.<sup>8</sup> Since then, many states have followed Tennessee's example, designing and implementing their own models. As of 2020, 30 states have some type of outcomes-based funding policy, with Tennessee being one of only five to allocate more than 80% of state funds based on student outcomes across two- and four-year institutions.<sup>9</sup>

### Tennessee's Outcomes-Based Funding Formula at a Glance

Outcome Metrics		Focus Populations
<p><b>Community Colleges</b></p> <ul style="list-style-type: none"> <li>• Students Accumulating 12 Hrs.</li> <li>• Students Accumulating 24 Hrs.</li> <li>• Students Accumulating 36 Hrs.</li> <li>• Associate Degrees</li> <li>• Long-Term Certificates</li> <li>• Short-Term Certificates</li> <li>• Dual Enrollment</li> <li>• Job Placements</li> <li>• Transfers Out With 12 Hrs.</li> <li>• Workforce Training/Contact Hours</li> <li>• Awards per 100 FTE</li> </ul>	<p><b>Universities</b></p> <ul style="list-style-type: none"> <li>• Students Accumulating 30 Hrs.</li> <li>• Students Accumulating 60 Hrs.</li> <li>• Students Accumulating 90 Hrs.</li> <li>• Bachelor's and Associate Degrees</li> <li>• Master's/Ed. Specialist Degrees</li> <li>• Doctoral/Law Degrees</li> <li>• Research, Service, and Sponsored Programs</li> <li>• Six-Year Graduation Rate</li> <li>• Degrees per 100 FTE</li> </ul>	<ul style="list-style-type: none"> <li>• Adult</li> <li>• Low-Income</li> <li>• Academically Underprepared <i>(community colleges only)</i></li> <li>• High-Need Fields <i>(undergraduate awards only)</i></li> </ul>

**Data Source:** *Outcomes-Based Funding Formula*, Tennessee Higher Education Commission

Tennessee's outcomes-based funding formula rewards institutions for improvement on outcome metrics relative to their peers. Outcomes are measured on three-year averages and weighted to align with institutional priorities and missions. There are also several focus populations that result in bonuses based on how many characteristics apply to a student achieving an outcome metric.

The national research on outcomes-based funding does not show conclusive evidence of positive impacts on students.<sup>10</sup> However, Tennessee-specific research promisingly suggests the state's outcomes-based funding formula is associated with positive impacts on some credit accumulation and credential attainment measures — though impacts were not consistently positive for part-time students or students from historically underserved groups.<sup>11</sup> These findings suggest that Tennessee's outcomes-based funding model can impact student success but has not yet driven improvements for all outcomes or for all students.

## Challenges: Limited Impact on Student Success

Tennessee must realize a vision for ensuring all the state's students receive the education experiences needed for careers that enable economic independence. The outcomes-based funding formula is one piece of the puzzle for supporting that vision by providing clear incentives and accountability for postsecondary education to drive student success from education to careers. Some components of the current formula strive to support this vision for opportunity, but those efforts have not done enough to drive student success. Improvements to the formula would make it a more effective tool for supporting education and career success for all Tennesseans.

SCORE identified three **leading challenges** in student outcomes demonstrating that Tennessee's current outcomes-based funding formula is not effectively supporting students toward graduation and careers that enable economic independence.

### Challenge: Misalignment With Careers

*The formula has not sufficiently prioritized career outcomes.*

**Current Formula:** Of the more than 20 current metrics and premiums used in the current formula, three have connections to careers: the job placement metric, the workforce training metric, and the high-need premium. The job placement and workforce training metrics are considered for community colleges only. The high-need premium provides a larger award for students who

earn a credential in certain high-demand STEM fields but excludes in-demand fields such as management, legal, and architecture, which have some of the highest earnings in the state.<sup>12</sup>

**What the Data Show:** While Georgetown's Center on Education and the Workforce estimates that over 60% of Tennessee jobs will soon require some sort of postsecondary training beyond high school, Tennessee's attainment rate is only at 47.9%.<sup>13</sup> We **do not have sufficient information to discern if the credentials earned are preparing graduates for careers that enable economic independence**, but there are several metrics indicating that not all credentials are equally preparing students for careers.

- **Earnings:** There is significant variation in the lifetime earnings of postsecondary graduates, illustrating that **not all graduates experience the same return on investment**.<sup>14</sup> For example, some bachelor's degree holders earn the same or less over their lifetime than some individuals with only a high school diploma.<sup>15</sup>
- **Demand:** Postsecondary programs are **not consistently aligned with workforce demand**, which could limit student options in the job market. A 2022 study from Tennessee's Office of Research and Education Accountability (OREA) found that only half of the postsecondary credentials earned by students between 2016 and 2018 were linked to a high-demand occupation.<sup>16</sup>
- **Skills:** The national organization Lightcast calculates a Skills Alignment Score ranging from zero to one to measure alignment across majors with job skills (with zero being least aligned and one being most aligned). Of the 24 major areas with enough data to calculate a Tennessee-specific index, **over 70% of majors had a skills alignment index below 0.5**, suggesting middling to low alignment between what Tennesseans are learning and what job descriptions request.<sup>17</sup>

## Challenge: Underwhelming Postsecondary Outcomes

*The formula has not translated to significantly improved student success at postsecondary institutions.*

**Current Formula:** The current outcomes-based funding formula is designed around incentivizing postsecondary outcomes such as credential and degree earning, credit accumulation, and transfer. There are 11 metrics for community colleges and nine for universities. Though most of these metrics are based on student outcomes, that is not true across the board. For example, the community college dual enrollment (DE) metric is an enrollment-based measure, which does not hold postsecondary institutions accountable to DE student success.

**What the Data Show:** While there are many different outcomes in the current formula focused on success in postsecondary institutions, those outcomes intend to contribute to an overall goal of graduating more students. Tennessee's postsecondary **graduation rates have increased some but have room to improve.** Only a quarter of first-time full-time freshmen graduate from community college in three years and less than two-thirds graduate from university in six years.<sup>18</sup>

### **Challenge: Opportunity Gaps**

*The formula has not resulted in the closing of opportunity gaps for students from historically underserved groups.*

**Current Formula:** The current formula has three focus population premiums that generate targeted funding for specific student groups: adults, low-income students, and academically underprepared students. Postsecondary institutions receive additional funding based on how many focus population characteristics apply to a student, receiving a bonus when focus population students achieve an outcome metric in the formula.

**What the Data Show:** Students in Tennessee experience **significant gaps in opportunity across racial, socioeconomic, and gender groups.** These gaps are prevalent throughout K-12 education and continue into postsecondary education and the workforce.

- **Postsecondary:** Notable **completion gaps** exist between student groups across both two- and four-year institutions. Only 12.1% of Black males who entered Tennessee community colleges in 2020 graduated within three years compared to 28.9% of White males.<sup>19</sup> There is also a 15-percentage point gap between six-year graduation rates of Pell-ineligible and Pell-eligible students at community college in Tennessee.<sup>20</sup> At the state's public universities, that gap is 24 percentage points.<sup>21</sup>
- **Workforce:** Even for students that do reach graduation, holding a degree or credential does not benefit graduates equally. There are significant **earning gaps** by race and gender, suggesting that students from historically underrepresented groups may not have sufficient support in postsecondary education to prepare them for the careers that enable economic independence. For instance, five years after graduation the median annual wage for White Tennessee Board of Regents (TBR) graduates was \$46,258 compared to \$39,015 for Black TBR graduates.<sup>22</sup> While postsecondary institutions cannot solve for wage gaps alone, the education and training they provide is one important aspect of closing these gaps and supporting economic mobility.

## Looking Forward: Goals for the Future

Data from Tennessee's postsecondary and workforce systems illustrate a significant misalignment between education and work, with clear room for improvement on student outcomes. A revision of the outcomes-based funding formula to drive the earning of high-impact credentials is one among a series of important strategies for making Tennessee a national leader in supporting student success and state economic growth. Promisingly, there is a forthcoming window of opportunity for formula revisions.

State law requires the Tennessee Higher Education Commission (THEC) to establish a committee to support an annual review of the state's funding formula.<sup>23</sup> Every five years, THEC works with this committee to conduct a more comprehensive review to reevaluate the formula and ensure it remains aligned and responsive to state goals and priorities. The next major review cycle is set for 2025.

**The 2025 formula review cycle is a chance for Tennessee to prioritize student success by aligning the formula with measures that show whether students are on pathways toward careers that enable economic independence.** For the formula to more effectively drive student success for every Tennessean, it must:

- Have a clear focus that prioritizes **long-term student success**
  - Appropriately **incentivize student opportunity** in postsecondary education and careers
  - **Hold postsecondary institutions sufficiently accountable** for preparing all students for careers enabling economic independence
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